

**TUMWATER PUBLIC WORKS COMMITTEE
MINUTES OF VIRTUAL MEETING
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CONVENE: 8:01 a.m.

PRESENT: Chair Eileen Swarthout and Councilmember Angela Jefferson.

Excused: Councilmember Michael Althausen.

Staff: City Administrator Lisa Parks, City Attorney Karen Kirkpatrick, Finance Director Troy Niemeyer, Transportation and Engineering Department Director Brandon Hicks, Water Resources and Sustainability Department Director Dan Smith, Engineering Services Manager Bill Lindauer, WRS Program Manager Patrick Soderberg, Community Engagement Specialist Marnie McGrath, and Administrative Assistant Bonnie Hale.

Others: Isalah Barnes, Carollo Engineers.

**APPROVAL OF
MINUTES: PUBLIC
WORKS
COMMITTEE,
JANUARY 9, 2025:**

MOTION: Councilmember Jefferson moved, seconded by Chair Swarthout, to approve the minutes of January 9, 2025 as presented. A voice vote approved the motion unanimously.

**COST OF SERVICE
UTILITY RATE
MODEL REPORT:** Manager Soderberg reported the briefing on the Cost of Service Utility Rate Model Report is a project completed over the last year with the assistance of Carollo Engineers. The model enables staff to evaluate current cost of service and future cost projections using different rate scenarios for different customers and for different types of usage. He introduced Isalah Barnes with Carollo Engineers to review the project.

Ms. Barnes reviewed the project objectives for the rate study, assumptions, revenue requirements, affordability of rates previously approved, impact fees, and the future of utilities.

Project objectives included revenue requirement analysis to assess the sufficiency of current utility rates to ensure coverage of operating expenses, capital expenses, and any planned improvements. The study examined affordability by considering different factors such as median household income and other benchmarks in the water industry to assess affordability. Impact fees were calculated by reviewing existing impact fees and planned improvements to determine whether current impact fees would be sufficient. The modeling tool will be provided to the City for future utility scenario planning.

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The rate study relied on American Water Works Association's (AWWA) manual on ratemaking as the primary source document for ratemaking. The analysis is consistent with the methodologies published in the manual. Carollo Engineers is a member of AWWA's Rates and Charges Committee.

The study incorporated budget documents, pertinent financial information, financial policies, and Capital Facilities Plans (CFP) for each utility. The information was entered into the model for analysis and production of different financial projections.

The financial plan assumptions analysis considered revenue requirements and assurance that the operating reserve or cash on hand was at least 20% of operating and maintenance (O&M) expenses and any annual debt service. An annual growth rate of 1% was included as well as escalation rates of 3.5% for O&M and 3.5% for the CFP. Modeling forecasted future debt needs at a rate of one year of debt payments. Additionally, a debt service coverage requirement was included of 1.25% based on a required calculation of annual revenue subtracted by operating expenses equaling at least 1.2 times the amount of the annual debt payment. The debt service coverage requirement does not consider the beginning fund balance of the utility. The requirement essentially considers annual revenue compared to expenses.

Capital projects entered into the model represent the total capital spending for 11 years from 2024 through 2035. Ms. Barnes identified some of the larger planned capital projects for a total program of approximately \$80 million over the 11-year period.

Scenarios accounted for utility rate increases approved for 2025 and 2026. Beginning in 2027, scenarios accounted for required rate increases if the capital plan is completed as forecasted. One scenario reflects a 31.2% increase in the utility rate followed by 5% increases to align with inflationary increases.

Councilmember Jefferson questioned the need for such a substantial increase in 2027. Ms. Barnes advised that in 2027, the CFP projects \$10 million in projects. Although operating expenses in 2025, 2026, 2027 exceed revenue, ending fund balance exists that could be used to mitigate increases. That scenario continues for the next three years; however, in the fourth year, cash on hand is insufficient and requires a larger utility increase. The model reflects that in some future years, revenue exceeds operating expenses providing an opportunity to increase cash reserve to cover differences in revenue and operating expenses in future years. Some assumptions are included for debt issues beginning in 2028, which also requires a debt payment.

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Director Smith noted the models fluctuate based on input. When the project was initiated with Carollo Engineers, the budget was in a different format and throughout the input of initial assumptions the budget format was revised. The consultant team has been responsive to those changes. One of the initial outcomes of the modeling suggested that one annual rate increase could be substantial. Because the modeling process is fluid, it is important to acknowledge that the tool provides information to enable decision-making. In 2026, a proposed rate increase will likely need to be considered while also considering how numbers within the analysis will change based on actual conditions in terms of projects. The modeling provides different scenarios of decisions that might or might not occur, as well as timing for acquiring debt. The tool enables informed decisions as projects are considered, when new customers are added, when revenue increase from growth, and the affects of inflation, etc. The tool accounts for changing situations as reflected by some changes since the study was initiated.

Ms. Barnes described what the bars reflect on the 10-year financial plan graph and on the funds/reserve balances graph from years 2025 through 2024.

Modeling analysis considered affordability in terms of the 2025 utility rates using different metrics. The analysis computed the percentage amount of a utility bill for median household incomes as the threshold. The analysis also considered the household burden indicator by household income, as well as living wage for the Olympia, Lacey, and Tumwater area. The analysis included the Asset Limited, Income Constrained, Employed (ALICE) measurement for Thurston County of \$74,000 to quantify costs of a basic household budget in the county and the percentage of a utility bill. The federal poverty level for a four-person household was used to compare the utility bill. The City of Tumwater provides an incentive for low-income senior and the disabled for payment assistance. The analysis also considered “hours” at a minimum wage calculation of \$16.66 to compute the number of hours of work required to pay a utility bill.

Different scenarios included only a water bill and a combined water, sewer, and stormwater bill. Based on the ALICE standard for water only, the bill reflected .7% or less than 1%. For water, sewer, and stormwater, the bill reflected 2%. Both figures are considered affordable under the ALICE methodology. Under the median household income, both bills were considered affordable. Under the living wage metric averaging \$2,900 to \$5,800 a month, water-only bills remained affordable while combined bills of water, sewer, and stormwater reflected a strain dependent upon the income level. At the federal poverty level, the water-only bill was 1.5% and 4.8% for the combined utility bill. For lower income households, the total utility bill begins to create burdens. The analysis for the hours of minimum wage scenario reflected that an individual would need

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to work 2.4 hours to pay the water-only bill and 7.7 hours to pay the combined utility bill. Overall, the City's utility bill is affordable with the caveat that it is important to consider households at the federal poverty level experiencing more strain.

Chair Swarthout asked about the availability of data identifying the number of households in Tumwater at the federal poverty level. Director Smith responded that staff and the Finance Department would work together to determine ways to lessen the burden for those households. The analysis provides information to enable the City to begin identifying those in the community that might need assistance to assist staff in tailoring the program to reduce financial burdens to those households.

Ms. Barnes reviewed the analysis for water impact fees. A water impact fee is a one-time charge imposed on new or upsized meter connections to compensate for the cost of providing capacity in the system. An impact fee is assessed as a per unit of capacity. For Tumwater, the unit/rate is based on an ERU (Equivalent Residential Unit). Three impact fee methodologies are typically applied. The AWWA is scheduled to release a new manual on water impact fees with three basic methodologies of (1) system buy-in (for systems or areas that are near build-out with limited growth but can be accommodated by existing capacity in the system), (2) incremental approach (for utilities experiencing much growth and expansion with limited capacity in the existing system), and (3) a hybrid approach combining the first two methodologies. The study analysis included an incremental cost approach by considering future projects that will add capacity to the system or developed to serve growth. The calculation reflects approximately \$57 million for future system improvements. The projects include water rights acquisition and the brewery wellfield. The analysis considered the amount of capacity the projects would add. Added capacity is approximately 10,000 ERUs. To calculate the impact fee, the formula equates to the cost divided by the unit of capacity to compute a unit fee that can be charged per unit to new development. The calculated impact fee is \$5,749 compared to the existing impact fee of \$5,511 (recently updated). The existing fee is appropriate and close to the calculation.

Director Smith shared information on recent efforts by staff to adjust water impact fees.

Moving forward, utility goals include enhancing the Lifeline Program to include more customers, funding the CFP through impact fees and increased rate revenue for capital projects, adjusting the rate structure, annually update the analysis and financial plan, and evaluate water impact fees every three to five years.

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Councilmember Jefferson asked whether the analysis was included within the City's Comprehensive Plan. Director Smith advised that the Water System Plan includes analyses updated every 10 years. The next update of the Water System Comprehensive Plan is scheduled in 2028 for adoption before 2031. The financial model will help inform the update. However, the financial model is not included in the City's Comprehensive Plan other than the Comprehensive Plan integrates the utility comprehensive plan.

Ms. Barnes reported that data reflects the City is on track with the caveat of future capital needs. Dependent upon timing, the projects may necessitate an increase in rates.

Councilmember Jefferson recommended providing an additional slide reflecting that conclusion.

Director Smith advised that the briefing reflects completion of the project and a summary of the analysis. The results of the project will be reflected in future iterations of rate increase conversations and during updates of the CFP with the committee and the Council.

Discussion followed on the City's annual increase in City rates and the importance of understanding increases are often scheduled based on the CFP. Members and staff acknowledged affordability issues and benefits the new tool will provide for the City to forecast future rate structures to accommodate growth without increasing rates so high that would affect residents.

Committee members and staff discussed the percentage of the City's population with incomes at or below the federal poverty rate. Ms. Barnes said the analysis considered census data that reflected 7.8% of individuals in Tumwater have an income level at or below the federal poverty level.

City Administrator Parks added that the City has access to all census data in addition to data from the Thurston Planning Council. Staff is currently working with census data to help identify areas of the community that might be lower income from an equity lens perspective. The challenges are households versus ratepayers who rent. Many landlords include water, sewer, and garbage services within the rent. Additionally, staff has been reviewing options to identify people who could benefit from the Lifeline Program.

**UTILITY
ASSISTANCE
PROGRAM UPDATE:**

Director Niemeyer reported the City's Lifeline Program offers a 50% discount on utility bills for low-income seniors and disabled residents. During budget discussions, the direction to staff was to explore options for increasing participation, as the program has been under-utilized. Staff identified 110 individuals participating in the program at that time; however, the actual

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number of participants is 190. With more research and analysis, staff was able to obtain data from Thurston County to identify other individuals who might be eligible to participate in the program through the county's property tax discount program. Criteria for the tax reduction are the same the City's uses for the Lifeline Program. Individuals participating in the county's tax program have been verified in terms of criteria and could be automatically added to the City's program with an annual review of income eligibility. Staff identified 294 individuals who might qualify to participate in the program. However, with an average utility bill of \$143, cost of the program would be \$252,000 annually. If all qualified individuals participated in the program, the loss in revenue would be substantial and would need to be recouped through rates. The addition of 294 customers equates to approximately an 80% increase in participants.

Director Niemeyer said staff could notify the individuals that have been identified to provide an opportunity to apply for the program. He emphasized that \$252,000 would need to be recouped in utility rates. Staff developed a letter to mail to each household informing them about the program with instructions for applying. He noted that the new utility model will enable staff to factor the addition of participants to identify any adjustments to utility rates to bridge the revenue gap.

Councilmember Jefferson inquired about the timing of receiving an update on the number of individuals signing up for the program. Director Niemeyer responded that staff can move forward immediately with an update to the committee scheduled in several months dependent upon the response rate.

City Administrator Parks added that the committee will continue to receive regular updates on the Lifeline Program, as the initial work by staff only identified people who own property and pay property tax in Thurston County, which may have limited the pool of eligible individuals. Staff plans to explore ways to identify other eligible candidates, such as mobile home parks as the land is owned by an entity with each mobile home owner a potential candidate who might qualify for the program. The work completed at this point is only a step in the process of identifying eligible participants. The new Carollo tool assists in analyzing different data points and scenarios to inform decisions to accomplish competing priorities and goals.

Chair Swarthout pointed out that the City's program for utility bill processing costs \$250,000 in credit card fees affording an opportunity to educate the public on ways to assist the City in reducing costs. Changing a direct billing from a credit card to a checking account would eliminate credit card fees saving the City thousands of dollars that could be used to help other residents.

City Administrator Parks said messaging to the community would continue as

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staff evaluates whether the City passes credit card fees to customers who use credit card for payments. She noted that it is likely the City will pass through credit card fees for all payments made by a credit card.

Councilmember Jefferson commented on the federal government's recent action to demonize DEI (Diversity, Equity, & Inclusion) and thanked Director Niemeyer and the team for ensuring the process considers equity and inclusion for those people with limited incomes.

ADJOURNMENT: **With there being no further business, Chair Swarthout adjourned the meeting at 9:10 a.m.**

Prepared by Valerie L. Gow, Recording Secretary/President
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